

Report  
of the  
Examination of  
Old Line Life Insurance Company of America  
Milwaukee, Wisconsin  
As of December 31, 2000

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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September 28, 2001

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Honorable Connie L. O'Connell  
Commissioner of Insurance  
State of Wisconsin  
121 East Wilson Street  
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Commissioners:

In accordance with your instructions, a compliance examination has been made of the  
affairs and financial condition of:

OLD LINE LIFE INSURANCE COMPANY OF AMERICA  
Milwaukee, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of the company was conducted in 1996 as of December 31, 1995. The current examination covered the intervening period ending December 31, 2000, and included a review of such 2001 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain

documentation with respect to the alternative or additional examination steps performed during the course of the examination.

#### **Independent Actuary's Review**

Independent actuaries were engaged under a contract with the Office of the Commissioner of Insurance. They reviewed the adequacy of aggregate life and accident and health reserves, dividends to policyholders, cash flow testing, deferred and uncollected premiums for life insurance, due and uncollected premiums for health insurance, and in force testing. The results of their work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuaries' conclusion.

## II. HISTORY AND PLAN OF OPERATION

Old Line Life Insurance Company of America (Old Line Life) was organized on May 28, 1908, incorporated on February 10, 1910, and commenced business on April 16, 1910. The company is a wholly owned subsidiary of USLIFE Corporation (USLIFE), a New York based holding company. Old Line Life became a member of USLIFE on December 20, 1972. USLIFE became a wholly-owned subsidiary of American General Corporation (AGC) on June 17, 1997.

The percentage of total direct premium written in the various states was as follows:

California	\$ 75,212,471	20.6%
Texas	25,988,205	7.1
New Jersey	19,119,783	5.2
Florida	18,903,440	5.1
Pennsylvania	14,496,621	3.9
All others	<u>212,246,100</u>	<u>58.1</u>
	<u>\$365,966,620</u>	<u>100%</u>

The company writes in 49 states, with New York being the exception. In addition, the company is licensed in the District of Columbia and Guam. The major products marketed by the company include term life, universal life and ordinary whole life. The products are marketed through over 64,000 independent agents.

The following table is a summary of the net insurance premiums written by the company in 2000. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Ordinary life:				
Traditional (non-par)	\$279,833,499	\$125,275	\$117,136,432	\$162,822,342
Traditional (par)	10,628,911	0	17,924	10,610,987
Universal (all non-par)	<u>102,722,543</u>	<u>0</u>	<u>21,330,627</u>	<u>81,391,916</u>
Total Life	393,184,953	125,275	138,484,983	254,825,245
Individual annuities	253,094	0	0	253,094
Group annuities	<u>2,455</u>	<u>0</u>	<u>0</u>	<u>2,455</u>
Total annuities	255,549	0	0	255,549
Total All Lines	<u>\$393,440,502</u>	<u>\$125,275</u>	<u>\$138,484,983</u>	<u>\$255,080,794</u>

Direct written premium shown in the table includes premium waived under disability provisions and dividends applied to purchase paid-up additions. Traditional non-par life

represents 71% of the total direct premium and universal life accounts for 26%. Reinsurance ceded represents 35% of total direct premium. This is a result of reinsuring 90% of the face amount for most of the company's products.

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of seven members. Directors are elected annually and officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Rodney Martin, Jr. Houston, Texas	Director, Chairman, and CEO	2000
Donald Britton Houston, Texas	Director and President	2000
David Fravel Houston, Texas	Director and Executive Vice President	2000
David Herzog Woodlands, Texas	Director, Executive Vice President, and CFO	2000
Richard Hollar Brookfield, Wisconsin	Director	2000
John LaGrasse Houston, Texas	Director, Executive Vice President, and Chief Technology Officer	2000
Thomas Zurek Houston, Texas	Director, Executive Vice President, and General Counsel	2000



## **Officers of the Company**

The officers serving at the time of this examination are as follows:

<b>Name</b>	<b>Office</b>	<b>2000 Compensation*</b>
Donald Britton	President	\$230,625
Pauletta Palasota Cohn	Secretary	48,750
Dale Nauta	Treasurer	86,450

\*Old Line Life has no employees. Officers are employees of American General Life

Companies. Officer compensation shown is Old line Life's portion of the group allocation.

## **Committees of the Board**

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

### **Executive Committee**

Rodney Martin, Chair  
Donald Britton  
David Herzog

### **Investment Committee**

Richard Scott, Chair  
Julia Tucker  
Peter Tuters

#### IV. AFFILIATED COMPANIES

Old Line Life is a member of the American General Group holding company system.

The list below depicts the relationships among the affiliates in the group. A brief description of selected significant affiliates of the group follows the list.

##### AGC Life Insurance Company

- American General Property Insurance Company
  - American General Property Insurance Company of Florida
- American General Life and Accident Insurance Company
- American General Life Insurance Company
  - American General Annuity Service Corporation
  - American General Life Companies
  - American General Life Insurance Company of New York
  - The Winchester Agency, Ltd.
- The Variable Annuity Life Insurance Company
  - Parkway 1999 Trust
  - PESCO Plus, Inc.
  - American General Gateway Services, L.L.C.
  - The Variable Annuity Marketing Company
  - American General Financial Advisors, Inc.
  - American General Retirement Services Company
  - VALIC Trust Company
  - American General Assignment Corporation of New York

##### The Franklin Life Insurance Company

- The American Franklin Life Insurance Company
- Franklin Financial Services Corporation

##### HBC Development Corporation

Templeton American General Life of Bermuda, Ltd.

##### Western National Corporation

- WNL Holding Corporation
  - American General Annuity Insurance Company
  - American General Assignment Corporation
  - American General Distributors, Inc.
  - A.G. Investment Advisory Services, Inc.
  - American General Financial Institution Group, Inc.
  - WNL Insurance Services, Inc.

##### American General Asset Management Corporation

##### American General International, Inc.

##### American General Enterprise Services, Inc.

##### American General Delaware Management Corporation

##### American General Finance, Inc.

- HSA Residential Mortgage Services of Texas, Inc.

##### AGF Investment Corporation

##### American General Auto Finance, Inc.

##### American General Finance Corporation

- American General Finance Group, Inc.

- American General Financial Services, Inc.

- The National Life and Accident Insurance Company

- Merit Life Insurance Company

- Yosemite Insurance Company

- American General Finance, Inc.

- A.G. Financial Service Center, Inc.

- American General Bank, FSB

American General Funds Distributors, Inc.  
 American General Investment Holding Corporation  
     American General Investment Management, L.P.  
 American General Investment Management Corporation  
 American General Realty Investment Corporation  
     AGLL Corporation  
     American General Land Holding Company  
     AG Land Associates, LLC  
     Pebble Creek Service Corporation  
     SR/HP/CM Corporation  
 Green Hills Corporation  
 Knickerbocker Corporation  
     American Athletic Club, Inc.  
 Pavillions Corporation  
 USLIFE Corporation  
     All American Life Insurance Company  
     American General Assurance Company  
     American General Indemnity Company  
     USLIFE Credit Life Insurance Company of Arizona  
     American General Life Insurance Company of Pennsylvania  
     North Central Administrators, Inc.  
     North Central Life Insurance Company  
     North Central Caribbean Life, Ltd.  
     The Old Line Life Insurance Company of America  
     The United States Life Insurance Company in the City of New York  
     American General Bancassurance Services, Inc.  
     USMRP, Ltd.  
     The Huntington National Life Insurance Company  
 USLIFE Realty Corporation  
     USLIFE Real Estate Services Corporation  
 USLIFE Systems Corporation

### **American General Corporation**

American General Corporation, the ultimate parent of Old Line Life, is a Texas corporation headquartered in Houston. AGC's subsidiaries constitute one of the largest diversified financial services institutions in the United States. The group provides retirement services, investments, life insurance, and consumer loans to twelve million customers. The acquisition of USLIFE by AGC in 1997 added over \$7 billion of assets to the life insurance division. As of December 31, 2000, the American General Corporation's audited financial statements reported assets of \$120.1 billion, liabilities of \$110.2 billion, and unassigned funds and special reserves of \$9.9 billion. Operations for 2000 produced a net income of \$1 billion.

The AGC Group's operations are conducted in a shared services environment. For the purposes of efficiency and sound business practice, it has been a long-standing practice within the group for certain affiliates to provide services to other affiliates. The affiliate providing

the services is reimbursed for the costs and expenses by the affiliate receiving the services. Neither affiliate incurs a loss or realizes a profit at the expense of the other affiliate. Written service agreements have been established in order to specify the various responsibilities of the parties. The agreements cover services for claims, investments, payroll, and cross-selling arrangements.

### **USLIFE Corporation**

USLIFE was incorporated in 1966 under the laws of New York and is the parent of Old Line Life. USLIFE serves as the holding company whose principal subsidiaries engage in life insurance business.

### **Subsequent Event—American International Group, Inc. (AIG) Acquisition**

On August 29, 2001 American International Group, Inc. announced the closing of the acquisition of American General Corporation. As a result of the transaction AGC became a wholly-owned subsidiary of AIG.

AIG is a United States-based international insurance and financial services organization and a large underwriter of commercial and industrial insurance in the United States. Its member companies write a wide range of commercial, personal, and life insurance products. The distribution channels cover 130 countries and jurisdictions throughout the world. Global businesses include: financial services and products, asset management, aircraft leasing, consumer finance, real estate investment management, and retirement savings products. AIG's common stock is listed on the New York Stock Exchange and on the stock exchanges in London, Paris, Switzerland, and Tokyo.

The acquisition resulted in the dissolution of USLIFE Corporation. Old Line Life is now a 100% wholly-owned subsidiary of AGC Life Insurance Company (AGC Life). AGC Life is a 100% wholly-owned subsidiary of AGC.

AIG indicated in its Form A acquisition filing with the insurance commissioner's office that there were no plans to sell the assets of Old Line Life, merge the company, or make any material changes to the operations of the company.

**AGC Life Insurance Company**

AGC Life commenced business in September of 1982 and is domiciled in Missouri. AGC Life is licensed in Louisiana, Mississippi, Missouri, Oklahoma, Pennsylvania, South Carolina, and Tennessee. The company is an accredited reinsurer in Illinois, Kansas, Maryland, and Wisconsin. As a result of the AIG acquisition, AGC Life is now the parent of Old Line Life and three other subsidiaries in addition to the seven existing subsidiaries.

As of December 31, 2000, the company's audited financial statements reported assets of \$4.4 billion, liabilities of \$411 million, and unassigned funds and special reserves of \$4 billion. Operations for 2000 produced a net income of \$419 million.

## V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

### Affiliated Ceding Contracts

AGC Life assumes liabilities relating to universal life policies issued by Old Line Life after January 1, 2000. The business is on modified coinsurance basis with respect to the base policy reserves and is on a coinsurance basis for the additional reserves required by s. Ins 2.80 Wis. Adm. Code (Wisconsin's "Triple X" regulation). Old Line Life retains, controls, and owns all assets held in relation to the modified coinsurance reserve. The reinsurance provides surplus relief to Old Line Life for additional reserves required by Ins 2.80 Wis. Adm. Code for non-level term policies written after January 1, 2000. Old Line Life discontinued issuing these policies in the third quarter of 2000.

1. Type:	100% Quota Share
Reinsurer:	AGC Life Insurance Company
Scope:	Universal life insurance policies AG Classic Plus UL97D AG Prime Survivor Plus JLS-S 99D UL Elite Plus UL-93D
Retention:	None
Coverage:	100% of policies under Wisconsin version of "Triple X" regulations.
Premium:	Gross premiums collected during the quarter, minus premiums paid to non-affiliated reinsurers attributable to the portions reinsured under other agreements.
Commissions:	7% of gross premiums due each quarter
Effective date:	January 1, 2000
Termination:	Unlimited in duration. Either party may terminate

### Nonaffiliated Ceding Contracts

1. Type:	First Dollar Quota Share	
Reinsurer:	Life Re	20%

	Security Life of Denver Ins. Co.	20
	Munich American Reassuarance Co.	15
	Transamerica Occidental Life Ins. Co.	15
	Lincoln National Life Ins. Co.	15
	Annuity and Life Reassurance Co.	15
Scope:	Level Premium Term (LPT Ultra) 15, 20, 30	
Retention:	10% up to 1.5 million	
Coverage:	Automatic pool binding limits	
	Std-T4 (D)	\$25 million
	T5-T8 (E-H)	\$10 million
	T9-T16 (I-P)	\$7 million
	Jumbo limit	\$50 million
	Individual bindings limits (LPT) 15, 20, 30	
	Life Re, Security Life of Denver	\$4.7 million each
	Munich, Transamerica, Lincoln, Annuity & Life Re	\$3.525 million each
Premium:	Based on rates in Exhibit B and B-1 in contract.	
Commissions:	Based on allowances shown in Exhibit B in contract.	
Effective date:	December 1, 2000	
Termination:	Unlimited duration. Either party may terminate by giving other party a 30, 90 day notice, depending on the company.	
2. Type:	First Dollar Quota Share	
Reinsurer:	Life Re	20%
	Security Life of Denver Ins. Co.	20
	Munich American Reassuarance Co.	15
	Transamerica International Re (Bermuda)	15
	Lincoln National Life Ins. Co.	15
	Annuity and Life Reassurance Co.	15
Scope:	Long Term Guarantee (LTG Ultra) 10, 15, 20, 30	
Retention:	10% up to 1.5 million	
Coverage:	Automatic pool binding limits	
	Std-T4 (D)	\$25 million
	T5-T8 (E-H)	\$10 million
	T9-T16 (I-P)	\$7 million
	Jumbo limit	\$50 million
	Individual bindings limits (LTG) 10, 15, 20, 30	
	Life Re, Security Life of Denver	\$4.7 million each
	Munich, Transamerica, Lincoln, Annuity & Life Re	\$3.525 million each

Premium:	Based on rates in Exhibit B and B-1 in contract.
Commissions:	Based on allowances shown in Exhibit B in contract.
Effective date:	December 1, 2000
Termination:	Unlimited duration. Either party may terminate by giving other party a 90 day notice, depending on the company.



## **VI. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported in the December 31, 2000, annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

**Old Line Life Insurance Company of America**  
**Assets**  
**As of December 31, 2000**

	<b>Ledger Assets</b>	<b>Nonledger Assets</b>	<b>Nonadmitted Assets</b>	<b>Admitted Assets</b>
Bonds	\$1,275,819,128		\$2,363,445	\$1,273,455,683
Stocks:				
Preferred stocks	1,338,432		103,474	1,234,958
Common stocks	106,219			106,219
Mortgage loans on real estate:				
First liens	24,051,935			24,051,935
Policy loans	65,148,175			65,148,175
Cash	(1,058,413)			(1,058,413)
Short-term investments	294,146			294,146
Other invested assets	4,947,258			4,947,258
Receivable for securities	4,886,353			4,886,353
Write-ins for invested assets:				
Deposit transit account	1,054,074			1,054,074
Swaptions	289,566			289,566
Reinsurance ceded:				
Amounts recoverable from reinsurers		4,253,096		4,253,096
Commissions and expense allowances due		1,058,900		1,058,900
Guaranty funds receivable or on deposit	832,373			832,373
Life premiums and annuity considerations deferred and uncollected		84,958,448		84,958,448
Investment income due and accrued		22,708,464	11,245	22,697,219
Receivable from parent, subsidiaries and affiliates	1,377,518			1,377,518
Other assets nonadmitted:				
Agents' balances			(942,960)	
Furniture and equipment			397,615	
Write-ins for other than invested assets:				
Deferred system charge	11,192,973		11,192,973	
Accounts receivable	166,332		166,332	
Other assets	87,273		87,273	
Accounts receivable-real estate	14,315		14,315	
<b>Total Assets</b>	<b><u>\$1,390,002,312</u></b>	<b><u>\$112,978,908</u></b>	<b><u>\$13,393,712</u></b>	<b><u>\$1,489,587,508</u></b>

**Old Line Life Insurance Company of America**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2000**

Aggregate reserve for life policies and contracts	\$1,291,828,952
Supplementary contracts without life contingencies	19,798,563
Policy and contract claims:	
Life	18,510,071
Policyholders' dividend and coupon accumulations	680,711
Policyholders' dividends and coupons due and unpaid	1,000
Provision for policyholders' dividends and coupons payable in following calendar year:	
Apportioned for payment to December 31, 2000	701,110
Premiums and annuity considerations received in advance	355,155
Liability for premium and other deposit funds:	
Policyholder premiums	883,355
Policy and contract liabilities not included elsewhere:	
Other amounts payable on reinsurance assumed and ceded	9,828,777
Interest maintenance reserve	11,478,450
Commissions to agents due or accrued	262,000
Commissions and expense allowances payable on reinsurance assumed	3,922
General expenses due or accrued	2,484,114
Taxes, licenses, and fees due or accrued, excluding federal income taxes	3,088,247
Federal income taxes due or accrued	(9,298,585)
Unearned investment income	745,259
Amounts withheld or retained by company as agent or trustee	324,443
Amounts held for agents' account, including agents' credit balances	4,599,461
Remittances and items not allocated	1,760,942
Liability for benefits for employees and agents if not included above	945,633
Miscellaneous liabilities:	
Asset valuation reserve	16,217,225
Payable to parent, subsidiaries and affiliates	2,120,343
Write-ins for liabilities:	
Uncashed drafts and checks pending escheatment	1,082,674
Total Liabilities	1,378,401,822
 Common capital stock	 2,600,000
Gross paid in and contributed surplus	46,181,114
Unassigned funds (surplus)	<u>62,404,572</u>
 Surplus	 <u>111,185,686</u>
 Total Liabilities, Surplus, and Other Funds	 <u><u>\$1,489,587,508</u></u>

**Old Line Life Insurance Company of America**  
**Summary of Operations**  
**For the Year 2000**

Premiums and annuity considerations	\$255,080,794
Considerations for supplementary contracts with life contingencies	106,756
Considerations for supplementary contracts without life contingencies and dividend accumulations	35,662,931
Net investment income	106,347,830
Amortization of interest maintenance reserve	309,747
Commissions and expense allowances on reinsurance ceded	68,138,687
Reserve adjustments on reinsurance ceded	4,852,590
Miscellaneous income:	
Write-ins for miscellaneous income:	
Experience refund from reinsurers	9,836,004
Miscellaneous income	<u>6,973</u>
Total income items	480,342,312
Death benefits	87,210,621
Matured endowments	208,820
Annuity benefits	2,862,875
Disability benefits and benefits under accident and health policies	689,837
Surrender benefits and other funds withdrawals	49,290,841
Interest on policy or contract funds	598,240
Payments on supplementary contracts with life contingencies	117,915
Payments on supplementary contracts without life contingencies and of dividend accumulations	38,140,089
Increase in aggregate reserve for life and accident and health policies and contracts	56,382,519
Increase in reserve for supplementary contracts without life contingencies and for dividend and coupon accumulations	<u>(1,489,873)</u>
Subtotal	234,011,884
Commissions on premiums, annuity considerations, and deposit type funds	116,756,229
Commissions and expense allowances on reinsurance assumed	25,832
General insurance expenses	78,205,714
Insurance taxes, licenses, and fees excluding federal income taxes	11,600,466
Increase in loading on and cost of collection in excess of loading on deferred and uncollected premiums	6,347,059
Write-in for deductions:	
Interest to American General Life Company	<u>646,888</u>
Total deductions	<u>\$447,594,072</u>
Net gain from operations before dividends to policyholders and federal income taxes	32,748,240
Dividends to policyholders	<u>878,727</u>
Net gain from operations after dividends to policyholders and before federal income taxes	31,869,513
Federal income taxes incurred (excluding tax on capital gains)	<u>9,366,390</u>

Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	22,503,123
Net realized capital gains or (losses) less capital gains tax and amount transferred to the IMR	<u>(583,952)</u>
Net Income	<u>\$21,919,171</u>

**Old Line Life Insurance Company of America**  
**Cash Flow**  
**As of December 31, 2000**

Premiums and annuity considerations	\$227,168,068	
Considerations for supplementary contracts with life contingencies	106,756	
Considerations for supplementary contracts without life contingencies and dividend accumulations	35,662,931	
Net investment income	104,838,378	
Commissions and expense allowances on reinsurance ceded	73,723,399	
Write-ins for miscellaneous income:		
Experience Refund from Reinsurers	9,836,004	
Miscellaneous Income	<u>6,973</u>	
Total		<u>451,342,509</u>
Death benefits	90,089,738	
Matured endowments	208,820	
Annuity benefits	2,862,875	
Surrender benefits and other fund withdrawals	49,290,841	
Interest on policy or contract funds	601,454	
Payments on supplementary contracts with life contingencies	117,915	
Payments on supplementary contracts without life contingencies and of dividend accumulations	<u>38,140,089</u>	
Subtotal	181,311,732	
Commissions on premiums, annuity considerations, and deposit type funds	117,357,795	
Commissions and expense allowances on reinsurance assumed	27,346	
General insurance expenses	77,682,869	
Insurance taxes, licenses and fees, excluding federal income taxes	10,533,748	
Dividends paid to policyholders	883,199	
Federal income taxes (excluding tax on capital gains)	<u>19,384,240</u>	
Total deductions		<u>407,180,929</u>
Net cash from operations		\$44,161,580
Proceeds from investments sold, matured, or repaid:		
Bonds	620,957,895	
Stocks	3,050,521	
Mortgage loans	3,624,174	
Other invested assets	<u>1,448,730</u>	
Total investment proceeds	629,081,320	
Net tax on capital losses	<u>(872,155)</u>	
Total		629,953,475
Cost of investments acquired (long-term only):		
Bonds	646,264,425	
Stocks	1,651,850	
Mortgage loans	4,650,000	
Other invested assets	300,000	

Miscellaneous applications	<u>305,900</u>	
Total investments acquired		653,172,175
Net increase (or decrease) in policy loans and premium notes	<u>2,062,862</u>	
Net cash from investments		(25,281,562)
Cash provided from financing and miscellaneous sources:		
Surplus notes	19,000,000	
Other sources	<u>60,153,228</u>	
Total	79,153,228	
Cash applied for financing and miscellaneous uses:		
Dividends to stockholders paid	34,000,000	
Interest on indebtedness		
Other applications	<u>60,394,146</u>	
Total		<u>94,394,146</u>
Net cash from financing and miscellaneous sources		<u>(15,240,918)</u>
Net change in cash and short-term investments		3,639,100
<b>Reconciliation</b>		
Cash and short-term investments, December 31, 1999		<u>(4,403,367)</u>
Cash and short-term investments, December 31, 2000		<u>\$(764,267)</u>

**Old Line Life Insurance Company of America  
Compulsory and Security Surplus Calculation  
December 31, 2000**

Assets		\$1,489,587,508	
Less liabilities		<u>1,378,401,822</u>	
Adjusted surplus			\$111,185,686
Annual premium:			
Individual life	226,029,319		
Factor	<u>15%</u>		
Total		33,904,398	
Greater of 7.5% of consideration or 2% of reserves for annuities and deposit administration funds		<u>900,930</u>	
Compulsory surplus (subject to a \$2,000,000 minimum)			<u>34,805,328</u>
Compulsory surplus excess or (deficit)			<u>76,380,358</u>
Adjusted surplus			111,185,686
Security surplus:			
(140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million with a minimum of 110%)			<u>46,639,140</u>
Security surplus excess or (deficit)			<u>\$ 64,546,546</u>



**Old Line Life Insurance Company of America**  
**Reconciliation and Analysis of Surplus**  
**For the Five-Year Period Ending December 31, 2000**

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
Surplus, beginning of year	\$125,764,408	\$150,749,654	\$136,355,130	\$116,579,127	\$117,733,856
Net income	33,904,339	45,491,307	243	30,930,815	21,919,171
Change in net unrealized capital gains or (losses)	2,741,496	518,384	179,693	(1,996,135)	(470,784)
Change in nonadmitted assets and related items	728,621	(33,693)	(1,324,159)	(2,774,109)	(9,729,893)
Change in reserve on account of change in valuation basis	(730,377)	(750,819)	(3,959,495)		
Change in asset valuation reserve	(319,833)	5,380,297	(1,711,662)	(1,317,351)	(1,997,753)
Surplus adjustment – paid in			23,039,377		19,000,000
Dividends to stockholders	(12,316,000)	(65,000,000)	(36,000,000)	(26,000,000)	(34,000,000)
Write-ins for gains and (losses) in surplus:					
Prior year FIT adjustment	977,000			2,311,509	(1,268,911)
Surplus, end of year	<u>\$150,749,654</u>	<u>\$136,355,130</u>	<u>\$116,579,127</u>	<u>\$117,733,856</u>	<u>\$111,185,686</u>

**Old Line Life Insurance Company of America**  
**Insurance Regulatory Information System**  
**For the Five-Year Period Ending December 31, 2000**

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. Exceptional ratios are denoted with asterisks. A discussion of the exceptional ratios is found after the IRIS ratios.

<b>Ratio</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
#1 Net change in capital & surplus	20%	(10)	(31%)*	1%	(22%)*
#1A Gross change capital & surplus	20	(10)	(15)*	1	(6)
#2 Net income to total income	9	11	0	7	5
#4 Adequacy of investment income	182	182	180	176	176
#5 Non-admitted to admitted assets	0	0	0	0	1
#6 Total real estate & mortgage loans to cash & invested assets	4	3	2	2	2
#7 Total affl investments to capital & surplus	0	0	1	0	1
#8 Surplus relief	1	7	20	36*	61*
#9 Change in premium	2	(3)	(2)	1	4
#10 Change in product mix	1	0	0	0	0
#11 Change in asset mix	0	0	0	0	0.1
#12 Change in reserving ratio	(10)	(7)	1	(4)	8

For 2000, the change in capital and surplus was due to a 29% decline in net income and a 30% increase in stockholder dividends. The exceptional ratios for surplus relief amounts for the current and prior year were a result of an increase in ceded reinsurance. As detailed earlier in the report, the company cedes 35% of its direct business to reinsurers and assumes very little business. This led to an increase in commissions and expense allowances received, which in turn increased

surplus relief. In 1998, a \$45 million decrease in net income and the \$36 million dividend to stockholders led to the negative exceptional ratios for surplus.

#### **Old Line Life Insurance Company of America**

<b>Year</b>	<b>Admitted Assets</b>	<b>Liabilities</b>	<b>Surplus</b>
1996	\$1,330,731,230	1,179,981,574	\$150,749,656
1997	1,365,599,215	1,229,244,085	136,355,130
1998	1,392,885,007	1,276,305,880	116,579,127
1999	1,432,632,878	1,314,899,022	117,733,856
2000	1,489,587,508	1,378,401,822	111,185,686

#### **Life Insurance In Force**

<b>Year</b>	<b>Gross Direct And Assumed</b>	<b>Ceded</b>	<b>Net</b>
1996	49,269,004	\$1,817,594	\$47,451,410
1997	51,448,566	6,068,266	45,380,300
1998	56,961,372	14,353,933	42,607,439
1999	70,477,008	29,916,057	40,560,951
2000	93,296,283	53,144,650	40,151,633

Since the last examination as of December 31, 1995, assets increased by \$254 million or 20%, liabilities increased by \$268 million or 24%, and surplus decreased by \$14 million or 11%. The amount of insurance ceded for in-force business has steadily increased from 3.7% in 1996 to 57% in 2000.

The company ceded more business because of the effects of s. Ins. 2.80, Wis. Stats., (Triple X) for non-level term policies. The company discontinued writing the affected policies after September 30, 2000. Reserves of \$53,820,064 and a Mod-Co reserve of \$5,043,780 for Universal Life permanent plan policies were ceded to its affiliate, AGC Life.

**Reconciliation of Surplus per Examination**

As a result of the examination, there were no account reclassifications or material adjustments made to surplus.

## VII. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were nine specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Articles and Bylaws—It is recommended that the company regularly review compliance with its articles and bylaws, and when enacting amendments thereto, the company should endeavor to avoid conflicts between and within the corporate documents.

Action—Compliance.

2. Management and Control—It is again recommended that the company hold formal board meetings evidenced by written minutes, at least quarterly.

Action—Compliance.

3. Management and Control—It is recommended that the company notify the Office of the Commissioner of Insurance immediately about the removal of any officers along with the reasons for the removal.

Action—Compliance.

4. Accounts and Records—It is again recommended that the company use accurate descriptive titles when using write-in lines on their annual statement.

Action—Compliance.

5. Investments—It is recommended that the company establish a formal investment policy setting forth objectives and guidelines to be used by the investment advisor.

Action—Compliance.

6. Bonds—It is again recommended that all safekeeping agreements be amended as necessary such that:

- a) The agreements contain the proper custodian, and
- b) The agreements contain the necessary indemnification clause requiring the custodian to indemnify the company for any loss of securities resulting from the negligence or dishonesty of the custodian's officers or employees.

Action—Compliance.

7. Bonds—It is recommended that the company file Security Acquisition Reports with the NAIC's Securities Valuation Office for all securities reported on financial statements that are not included in the SVO manual. Such filings should be made within 120 days of the acquisition date.

Action—Compliance.

8. Accounts Receivable – Brokerage Firms—It is recommended that prepaid expenses be reported as nonadmitted assets in future annual statements.

Action—Compliance.

9. Ordinary Annuities—It is recommended that for future annual statements, the company perform more specific testing on individual annuity contracts to provide support that the reserves are in compliance with NAIC Actuarial Guideline 33.

Action—Compliance.

## **Summary of Current Examination Results**

### **Management and Control**

Records were reviewed at the commissioner's office for evidence indicating that all biographical reports for officers and directors of Old Line Life were filed. Biographies were not found for the following individuals: Donald Britton, Pauletta Palasota Cohn, David Fravel, David Herzog, Richard Hollar, John LaGrasse, and Thomas Zurek. This is in violation of s. 611.54 (1)(a), Wis. Stats. and s. Ins. 6.52 (5), Wis. Adm. Code. A biographical report should be filed for each newly appointed officer, director, or trustee and filed with the commissioner's office within fifteen days after an appointment or election. The report is to be prepared in accordance with State of Wisconsin standards. It is recommended that the company submit biographical reports for its directors, officers, and trustees to the Office of the Commissioner of Insurance in accordance with s. 611.54 (1)(a), Wis. Stats. and s. Ins. 6.52 (5), Wis. Adm. Code.

Reports on executive compensation are required by s. 611.63 Wis. Stats. to be filed annually at the commissioner's office as a supplement to the annual statement. The report filed for 2000 failed to report executive compensation information for the officers and directors for Old Line Life in violation of s 611.63 Wis. Stats. The report is required to include annual compensation for each director, the chief executive officer, and the four most highly paid officers. In addition, all officers and directors whose compensation exceeds specified amounts is required to be listed. It is recommended that the company file executive compensation reports for 2000 and all future years for officers and directors of Old Line Life in accordance with s. 611.63 (4), Wis. Stat.

### **Accounts and Records**

The examination review of the policyholder dividend liability reported in the annual statement concluded that the total amount reported for 2000 was deficient by approximately \$450,000. Due to the immateriality of the discrepancy, an adjustment to surplus was not be made in this examination report. It is recommended that the company review its procedures and monitor the policyholder dividend records to ensure that an adequate liability is established in future annual statements.

A review of the premium system indicated that certain amounts over ninety days past due were included in the premium deferred and uncollected account. Due to the immateriality of the discrepancy, an adjustment to surplus will not be made in the examination report. It is recommended that the company review the aging of its premium balances and reconcile the accounts accordingly.

## **VIII. CONCLUSION**

Old Line Life Insurance Company of America experienced steady growth in net investment income and assets since the last examination as of December 31, 1995. Assets increased by \$254 million or 20%, liabilities increased by \$268 million or 24%, and surplus decreased by \$14 million or 11%.

The majority of the company's business is comprised of term life. Traditional life represents 71% of the total direct premium and universal life accounts for 26%. During the last five years, the amount of ceded reinsurance steadily increased. The decision to cede more business was a result of the effects of s. Ins. 2.80, Wis. Stats., (Triple X) for non-level term policies. The company discontinued writing the affected Universal Life policies after September 30, 2000.

Since 1997, Old Line Life has been a part of the AGC Group with American General Corporation serving as the ultimate parent. Subsequent to the end of the examination period, on August 29, 2001, American International Group, Inc. announced the acquisition of American General Corporation. As a result of the transaction AGC became a wholly-owned subsidiary of AIG.

Old Line Life is now a 100% wholly-owned subsidiary of AGC Life Insurance Company, a 100% wholly-owned subsidiary of AGC. AIG stated in its Form A acquisition filing with the insurance commissioner's office that there were no plans to sell the assets of Old Line Life, merge the company, or make any material changes to the operations of the company.



## **IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

1. Page 28 - Management and Control—It is recommended that the company submit biographical reports for its directors, officers, and trustees to the Office of the Commissioner of Insurance in accordance with s. 611.54 (1)(a), Wis. Stats. and s. Ins. 6.52 (5), Wis. Adm. Code.
2. Page 28 - Management and Control—It is recommended that the company file executive compensation reports for 2000 and future years for officers and directors of Old Line Life in accordance with s. 611.63 (4), Wis. Stat.
3. Page 28 - Account and Records—It is recommended that the company review its procedures and monitor the policyholder dividend records to ensure that an adequate liability is established in future annual statements.
4. Page 29 - Accounts and Records—It is recommended that the company review the aging of its premium balances and reconcile the accounts accordingly.

## **X. ACKNOWLEDGMENT**

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
Rick Anderson	Insurance Financial Examiner
Richard Manamba	Insurance Financial Examiner
Sarah Salmon	Insurance Financial Examiner
Cruz Flores	EDP Specialist

Respectfully submitted,

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Examiner-in-Charge

Lewis Wharff, CFE  
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